

compliance ALERT

IRS Announces Health FSA and Other 2021 Plan Limits

October 29, 2020

On October 26, 2020, the IRS issued [Rev. Proc. 2020-45](#), which announces that the maximum pre-tax contribution to health FSAs and employer-sponsored commuter benefits will remain unchanged for 2021. Additionally, this IRS guidance explains that the annually adjusted tax exclusion limit for adoption assistance programs will increase for 2021.

FSA Limit Unchanged:

For 2021, employees can contribute up to a maximum of \$2,750 to health FSAs on a pre-tax basis through their cafeteria plan (unchanged from 2020). The same limit also applies to limited-purpose FSAs (for example, limited-purpose dental and vision FSAs), which can be stacked with health savings accounts (HSAs). Additionally, as there is no change to the maximum annual contribution, if the cafeteria plan permits the carryover of unused amounts, the maximum carryover amount remains at \$550 for the 2021 calendar year. The chart below shows the adjustment in health FSA contribution limits over the last two years.

Health FSAs (including limited-purpose FSAs)	2021	2020	2019
Maximum salary deferral contribution	\$2,750	\$2,750	\$2,700

Commuter Benefits Unchanged:

The maximum monthly exclusion amount for transportation in a commuter highway vehicle, vanpooling, any transit pass, and qualified parking will remain the same for 2021 at \$270 per month (\$3,240 per year).

Adoption Assistance Increase:

The maximum annual exclusion from an employee's gross income for an adoption assistance program will go up to \$14,440 in 2021 (up from \$14,300 in 2020).

What Should Employers and Plan Sponsors Do Next?

Employers and plan sponsors must ensure that their plans do not allow employees to make pre-tax contributions in excess of these amounts for 2021, and they should communicate the 2021 limits for these and the other benefit plans to their employees as part of the open enrollment process.

For health FSAs, employers and plan sponsors may continue to impose their own health FSA employee contribution limit for the plan year, as long as it does not exceed the ACA's maximum limit for the 2021 plan year of \$2,750.

If you have any additional questions, please call your Corporate Synergies Account Manager or 866.CSG.1719.